

MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA

ACTING THROUGH

THE MINISTRY OF FINANCE

MILLENNIUM CHALLENGE COMPACT

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MILLENNIUM CHALLENGE COMPACT

PREAMBLE

This MILLENNIUM CHALLENGE COMPACT (this “**Compact**”) is between the United States of America, acting through the Millennium Challenge Corporation, a United States Government corporation (“**MCC**”), and the Government of the United Republic of Tanzania (the “**Government**”), acting through the Ministry of Finance (individually, each of the MCC and the Government, a “**Party**” and collectively, the “**Parties**”).

Recalling that the Government consulted with the private sector and civil society of Tanzania to determine the priorities for the use of Millennium Challenge Account assistance and developed and submitted to the MCC a proposal for such assistance; and

Recognizing that the MCC wishes to help Tanzania implement a program to achieve the goal and objectives described herein (the “**Program**”);

The Parties hereby agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Compact Goal. The goal of this Compact is to advance economic growth and poverty reduction in Tanzania through strategic investments in transportation, energy, and water infrastructure (the “**Compact Goal**”).

Section 1.2 Project Objectives. The objectives of the Projects (each, a “**Project Objective**”) are:

- (a) To increase cash crop revenue and aggregate visitor spending through the Transport Sector Project;
- (b) To increase value added of businesses through the Energy Sector Project; and
- (c) To increase investment in human and physical capital and reduce the prevalence of water-related diseases through the Water Sector Project.

The Government shall take all necessary steps to achieve the Compact Goal and Project Objectives during the Compact Term.

ARTICLE 2.

FUNDING AND RESOURCES

Section 2.1 MCC Funding. The MCC hereby grants to the Government, under the terms of this Compact, an amount not to exceed Six Hundred Ninety-Eight Million One Hundred and Thirty-Six Thousand United States Dollars (US\$698,136,000) (“**MCC Funding**”) for use by the Government in the implementation of the Program, as more specifically described in Annex II to this Compact.

Section 2.2 Compact Implementation Funding.

(a) Of the total amount of MCC Funding, the MCC shall make up to Eleven Million Eight Hundred and Ninety-Six Thousand United States Dollars (US\$11,896,000) ("**Compact Implementation Funding**") available to the Government under Section 609(g) of the Millennium Challenge Act of 2003 for:

(i) administrative activities for MCA-Tanzania (as defined below), including start-up costs such as staff salaries, rent, cost of purchasing computers and other information technology or capital equipment and other similar expenses; and

(ii) any other activities relating to the implementation of the Compact, approved by the MCC.

(b) The Parties shall provisionally apply this Section 2.2, and Sections 2.6, 2.7 and 3.5 below, after the MCC and the Government sign this Compact until this Compact enters into force under Section 7.3. Compact Implementation Funding also shall be subject to the requirements, restrictions and procedures set out in writing by the MCC.

Section 2.3 Disbursement. In accordance with this Compact and the Program Implementation Agreement (as defined below), the MCC shall disburse MCC Funding for expenditures incurred in connection with the implementation of the Program (each, a "**Disbursement**"). The proceeds of such Disbursements shall be made available to the Government either (a) by deposit to a bank account established by the Government and acceptable to the MCC (a "**Permitted Account**") or (b) through direct payment to the relevant provider of goods, works or services in furtherance of this Compact, as appropriate. MCC Funding shall be expended solely to cover expenditures in connection with the implementation of the Program as provided in this Compact and the Program Implementation Agreement.

Section 2.4 Interest. The Government shall pay to the MCC any interest and other earnings that accrue on MCC Funding in accordance with the Program Implementation Agreement (whether by directing such payments to the bank account outside Tanzania designated by the MCC or otherwise).

Section 2.5 Government Resources; Budget.

(a) The Government shall provide all funds and other resources, and shall take all actions, that are necessary to carry out the Government's responsibilities and obligations under this Compact.

(b) The Government shall use its best efforts to ensure that all MCC Funding it receives, or is projected to receive, in each of its fiscal years is fully accounted for in its annual budget on a multi-year basis.

(c) The Government shall not reduce the normal and expected resources that it would otherwise receive, or budget, from sources other than the MCC for the activities contemplated under this Compact and the Program.

Section 2.6 Limitations on the Use of MCC Funding. The Government shall ensure that MCC Funding shall not be used for any purpose that would violate United States law or policy,

as specified in this Compact or as further notified to the Government in writing by the MCC, or by posting at www.mcc.gov ("**MCC Website**"), including but not limited to the following purposes:

- (a) for assistance to, or training of, the military, police, militia, national guard or other quasi-military organization or unit;
- (b) for any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;
- (c) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard as further described in MCC environmental guidelines posted on the MCC Website ("**MCC Environmental Guidelines**"); or
- (d) to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.7 Taxes.

(a) The Government shall ensure that the assistance provided by the MCC to the Government under this Compact is exempt from any existing or future taxes, duties, levies, contributions or other similar charges ("**Taxes**") by the Government (including any such Taxes of a national, regional, local or other governmental or taxing authority) in accordance with the terms of the "Agreement Providing For the Furnishing of Economic, Technical, and Related Assistance" between the United States and the Government, entered into force on February 8, 1968.

(b) If any Tax has been levied and paid to the Government contrary to the requirements of Section 2.7(a) above, the Government shall refund promptly to the MCC the amount of such Tax out of its national funds, and no MCC Funding, proceeds thereof, or Program asset may be applied by the Government in satisfaction of its obligations under this Section 2.7(b).

ARTICLE 3. IMPLEMENTATION

Section 3.1 Program Implementation Agreement. The Government shall implement the Program in accordance with this Compact and as further specified in an agreement to be entered into by the MCC and the Government, which agreement will address, among other matters, implementation arrangements, fiscal accountability, disbursement and use of MCC Funding, procurement and applicable tax exemptions (the "**Program Implementation Agreement**" or "**PIA**").

Section 3.2 Government Responsibilities.

- (a) The Government shall have the principal responsibility of overseeing and managing the implementation of the Program.
- (b) The Government shall ensure that any assets or services funded in whole or in part (directly or indirectly) by MCC Funding will be used solely in furtherance of this Compact and the Program.
- (c) The Government shall ensure that no law or regulation in Tanzania now or hereinafter in effect makes, or will make unlawful, or otherwise prevent or hinder the performance of any of its obligations under this Compact, the PIA or any other agreement related thereto or any transaction contemplated thereunder.
- (d) The Government shall fund all costs in excess of those budgeted for the Program, as set forth in Annex II (as such may be modified in accordance with the terms thereof), in order to ensure the full and complete implementation of the Program.

Section 3.3 Policy Performance. In addition to the specific policy, legal and regulatory reform commitments identified in Annex I to this Compact, the Government shall commit to maintain and improve its level of performance under the policy criteria (relating to just governance, economic freedom and investments in people) identified in Section 607 of the Millennium Challenge Act of 2003, and the selection criteria and methodology used by the MCC.

Section 3.4 Government Assurances. The Government assures the MCC that:

- (a) as of the date this Compact is signed by the Government, the information provided to the MCC by or on behalf of the Government in the course of reaching agreement with the MCC on this Compact is, taken as a whole, true, correct and complete in all material respects;
- (b) this Compact does not, and will not, conflict with any other international agreement or obligation of the Government or any of the laws of Tanzania; and
- (c) the Government shall not invoke any of the provisions of its internal law to justify or excuse a failure to perform its duties or responsibilities under this Compact.

Section 3.5 Implementation Letters. From time to time, the MCC may provide guidance to the Government in writing on all matters relating to MCC Funding, this Compact or implementation of the Program (each, an "**Implementation Letter**"). The Government shall apply such guidance in implementing the Program.

Section 3.6 Procurement. Under the exception set forth in Section 4 of the Public Procurement Act No. 21 of 2004, the Government shall ensure that the procurement of all goods, works and services by the Government or any Provider in furtherance of this Compact will be consistent with and conducted in accordance with the procurement guidelines notified by the MCC to the Government in writing or by posting on the MCC Website, or otherwise made publicly available ("**MCC Program Procurement Guidelines**"). The MCC Program Procurement Guidelines include, among others, the following requirements:

(a) open, fair, and competitive procedures must be used in a transparent manner to solicit, award and administer contracts and to procure goods, works and services;

(b) solicitations for goods, works, and services must be based upon a clear and accurate description of the goods, works and services to be acquired;

(c) contracts must be awarded only to qualified contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis; and

(d) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, will be paid to procure goods, works and services.

Section 3.7 Records; Accounting; Covered Providers; Access.

(a) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, accounting books, records, documents, and other evidence relating to this Compact adequate to show, to the MCC's satisfaction, the use of all MCC Funding ("**Compact Records**"). In addition, the Government shall furnish or cause to be furnished all Compact Records to the MCC when the MCC so requests.

(b) Accounting. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with accounting principles prescribed by the International Accounting Standards Committee. Compact Records must be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Provider; Covered Provider. Unless the Parties otherwise agree in writing, a "**Provider**" is (i) any entity of the Government that receives or uses MCC Funding or any other Program asset in carrying out activities in furtherance of this Compact or (ii) any third party that receives at least US\$50,000 in the aggregate of MCC Funding (other than as salary or compensation as an employee of an entity of the Government) during the Compact Term. A "**Covered Provider**" is (i) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with the MCC) US\$300,000 or more of MCC Funding in any Government fiscal year or any other non-United States person or entity that receives, directly or indirectly, US\$300,000 or more of MCC Funding from any Provider in such fiscal year or (ii) any United States Provider that receives (other than pursuant to a direct contract or agreement with the MCC) US\$500,000 or more of MCC Funding in any Government fiscal year or any other United States person or entity that receives, directly or indirectly, US\$500,000 or more of MCC Funding from any Provider in such fiscal year.

(d) Access. Upon the MCC's request, the Government, at all reasonable times, shall permit, or cause to be permitted, authorized representatives of the MCC, an authorized United States inspector general, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by the MCC or the Government to conduct

any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect facilities and activities funded in whole or in part by MCC Funding.

Section 3.8 Audits; Reviews.

(a) Government Audits. Except as the Parties may otherwise agree in writing, the Government shall, on at least a semi-annual basis, conduct, or cause to be conducted, financial audits of all disbursements of MCC Funding in accordance with this Section 3.8(a). The initial financial audit shall cover the period from signing of this Compact until the earlier of the following December 31 and June 30, and all subsequent financial audits shall cover each six-month period thereafter ending December 31 and June 30 through the end of the Compact Term, in each case in accordance with the terms of the PIA. Upon the MCC's request, to conduct such audits, the Government shall use, or cause to be used, an auditor approved by the MCC and named on the list of local auditors approved by the Inspector General of the Millennium Challenge Corporation (the "***Inspector General***") or a United States-based Certified Public Accounting firm selected in accordance with the "Guidelines for Financial Audits Contracted by MCA" (the "***Audit Guidelines***") issued and revised from time to time by the Inspector General. Each audit shall be performed in accordance with the Audit Guidelines and be subject to quality assurance oversight by the Inspector General. Each audit shall be completed and the audit report delivered to the MCC no later than 90 days after the first period to be audited and no later than 90 days after each June 30 and December 31 thereafter, unless the Parties otherwise agree in writing.

(b) Audits of United States Entities. The Government shall ensure that agreements between the Government or any Provider, on the one hand, and a United States nonprofit organization, on the other hand, that are financed with MCC Funding state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133. The Government shall ensure that agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, that are financed with MCC Funding state that the United States for-profit Covered Provider is subject to audit by the cognizant United States Government agency, unless the Government and the MCC agree otherwise in writing.

(c) Corrective Actions. The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of the Government's records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(d) Audit by the MCC. The MCC shall have the right to arrange for and conduct audits of the Government's use of MCC Funding.

(e) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews or evaluations required under this Compact, including as reflected on Annex II to this Compact.

ARTICLE 4.
COMMUNICATIONS

Section 4.1 Communications. Any document or communication required or submitted by either Party to the other under this Compact shall be in writing and, except as otherwise agreed between the Parties, in English. For this purpose, the address of each Party is set forth below.

To the MCC:

Millennium Challenge Corporation
Attention: Vice President for Compact Implementation
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, DC 20005
United States of America
Facsimile: (202) 521-3700
Telephone: (202) 521-3600
Email: VPImplementation@mcc.gov (Vice President for Compact Implementation)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

The Government of the United Republic of Tanzania
Attention: The Permanent Secretary
Ministry of Finance
Madaraka Avenue
P.O. Box 9111
Dar es Salaam, Tanzania
Facsimile: 255 22 2110326
Telephone: 255 22 2111174
Email: ps@mof.go.tz

With a copy to MCA-Tanzania:

Millennium Challenge Account-Tanzania
Attention: Chief Executive Officer
Kivukoni Front/Ohio Street
P.O. Box 8327
Dar es Salaam, Tanzania
Facsimile: 255 22 2124644
Telephone: 255 22 2124634
Email: To be designated in writing to the MCC by MCA-Tanzania

Section 4.2 Representatives. For all purposes of this Compact, the Government shall be represented by the individual holding the position of, or acting as, the Permanent Secretary to the Treasury, and the MCC shall be represented by the individual holding the position of, or acting as, Vice President for Compact Implementation (each, a "***Principal Representative***"), each of whom, by written notice to the other Party, may designate one or more additional representatives

for all purposes other than signing amendments to this Compact. A Party may change its Principal Representative to a new representative that holds a position of equal or higher rank upon written notice to the other Party.

Section 4.3 Signatures. With respect to all documents other than this Compact or an amendment to this Compact, a signature delivered by facsimile or electronic mail shall be binding on the Party delivering such signature to the same extent as an original signature would be.

ARTICLE 5.

TERMINATION; SUSPENSION; REFUNDS

Section 5.1 Termination; Suspension.

(a) Either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) The MCC may, immediately upon written notice to the Government, suspend or terminate this Compact or MCC Funding under this Compact, in whole or in part, if the MCC determines that any circumstance identified by the MCC as a basis for suspension or termination (whether in writing to the Government or by posting on the MCC Website) has occurred, which circumstances include but are not limited to the following:

(i) the Government fails to comply with its obligations under this Compact, the PIA or any other agreement or arrangement entered into by the Government in connection with this Compact or the Program;

(ii) an event has occurred that, in the MCC's determination, makes achievement of any Project Objective improbable during the term of this Compact or makes it improbable that the Government will be able to perform its obligations under this Compact;

(iii) any use of MCC Funding or continued implementation of this Compact that would violate applicable law or United States Government policy, whether now or hereafter in effect;

(iv) the Government or any other person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is engaged in activities that are contrary to the national security interests of the United States;

(v) an act has been committed or an omission or an event has occurred that would render Tanzania ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961 (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(vi) the Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Tanzania for assistance under the Millennium Challenge Act of 2003; and

(vii) a person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

(c) All Disbursements shall cease upon the expiration, suspension, or termination of this Compact; *provided, however*, that MCC Funding may be used, in compliance with this Compact and the PIA, to pay for (i) reasonable expenditures for goods, works or services that are properly incurred under or in furtherance of this Compact before such expiration, suspension or termination of this Compact, and (ii) reasonable expenditures (including administrative expenses) that are properly incurred in connection with the winding up of the Program within 120 days after the expiration, suspension or termination of this Compact, so long as the request for payment of such expenditures is submitted within ninety (90) days after such expiration, suspension or termination.

(d) Subject to subsection (c) of this Section 5.1, upon the expiration, suspension or termination of this Compact, (i) any amounts of MCC Funding not disbursed by the MCC shall be released from any obligation in connection with this Compact without any action from the Government or the MCC, and (ii) any amounts of MCC Funding disbursed by MCC but not expended under Section 2.3 before such expiration, suspension or termination, plus accrued interest thereon, shall be returned to the MCC within thirty (30) days after the Government receives the MCC's request for such return.

(e) The MCC may reinstate any suspended or terminated MCC Funding under this Compact if the MCC determines that the Government or other relevant person or entity has committed to correct each condition for which MCC Funding was suspended or terminated.

Section 5.2 Refunds; Violation.

(a) If any MCC Funding, any interest or earnings thereon, or any asset acquired in whole or in part with MCC Funding is used for any purpose in violation of the terms of this Compact, the MCC shall have the right to require that the Government repay to the MCC, in United States Dollars, the value of such misused MCC Funding, interest, earnings, or asset, plus interest, within thirty (30) days after the Government's receipt of the MCC's request for repayment. The Government shall use national funds (and no MCC Funding or assets of the Program) to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, the MCC's right under this Section 5.2 for a refund shall continue during the term of this Compact and for a period of (i) five years thereafter or (ii) one year after the MCC receives actual knowledge of such violation, whichever is later.

Section 5.3 Survival. The Government's responsibilities under Sections 2.4, 2.6, 2.7, 3.7, 3.8, 5.1(c), 5.1(d), 5.2, 5.3 and 6.4 of this Compact shall survive the expiration, suspension or termination of this Compact.

ARTICLE 6.

COMPACT ANNEXES; AMENDMENTS; COMPACT STATUS

Section 6.1 Annexes. Each annex attached hereto constitutes an integral part of this Compact.

Section 6.2 Inconsistencies. In the event of any conflict or inconsistency between:

- (a) any annex to this Compact and any of Articles 1 through 8, such Articles 1 through 8 shall prevail; or
- (b) this Compact and any other agreement between the Parties regarding the Program, this Compact shall prevail.

Section 6.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of both Parties and subject to the respective domestic approval requirements to which this Compact was subject.

Section 6.4 Compact Status. This Compact is an international agreement and, as such, will be governed by the principles of international law.

Section 6.5 Additional Instruments. Any reference to activities, obligations or rights undertaken or existing under or in furtherance of this Compact or similar language shall include activities, obligations and rights undertaken by, existing under or in furtherance of any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Website. Any reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to a document or information available on, or notified by posting on the MCC Website shall be deemed a reference to such document or information as updated or substituted on the MCC Website from time to time.

Section 6.7 Exclusion Clause. This Compact and the other Compact Documents (as defined below) and the performance by the Government of any of its obligations under this Compact or the other Compact Documents shall not be made unlawful or otherwise prevented, hindered or adversely affected by any laws of Tanzania that come into effect after the MCC and the Government sign this Compact.

Section 6.8 References to Laws, Regulations, Policies and Guidelines. Each reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to a law, regulation, policy, guideline or similar document will, unless expressly set forth herein or therein, be construed as a reference to such law, regulation, policy, guidelines or similar document as it may, from time to time, be amended, revised, replaced, or extended and will include any law, regulation, policy, guidelines or similar document issued under or otherwise applicable or related to such law, regulation, policy, guidelines or similar document.

ARTICLE 7.

ENTRY INTO FORCE

Section 7.1 Domestic Requirements. The Government shall take all steps necessary to ensure that (a) this Compact and the PIA and all of the provisions of this Compact and the PIA are valid and binding and are in full force and effect in Tanzania, and (b) no laws of Tanzania (other than the constitution of Tanzania), whether now or hereafter in effect, will take precedence or prevail over the terms of this Compact or the PIA.

Section 7.2 Conditions Precedent. Before this Compact enters into force:

- (a) the Government and the MCC shall execute the PIA;
- (b) the Government shall deliver to the MCC:
 - (i) a certificate signed and dated by the Principal Representative of the Government (or such other duly authorized representative of the Government acceptable to the MCC) certifying that the Government has taken all steps required under Section 7.1;
 - (ii) an opinion from the Attorney General of Tanzania, in form and substance satisfactory to the MCC, that states, among other things, (1) each of the Compact, the PIA and any other agreement entered into in connection with this Compact to which the Government and the MCC are parties (the “**Compact Documents**”) have been duly authorized, executed and delivered by the Government, (2) each Compact Document and all of the provisions of each Compact Document are valid and binding and are in full force and effect in Tanzania, (3) each Compact Document has the status, if stipulated in such agreement, of an international agreement, (4) each Compact Document (and the execution, delivery and performance by the Government of each) does not and will not conflict with any other international agreement or obligation of the Government or any of the laws of Tanzania, and (5) MCA-Tanzania has been duly established as an independent accountable entity, is validly existing as an office of the Government, and has the power and authority to perform the functions and carry out the obligations contemplated by the Compact Documents; and
 - (iii) complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Compact to enter into force and the satisfaction of the requirements of Section 7.1, which the MCC may post on the MCC Website or otherwise make publicly available; and
- (c) The MCC must determine that, after signature of this Compact, the Government has not engaged in any action or omission that is inconsistent with the eligibility criteria for MCC Funding.

Section 7.3 Date of Entry into Force. This Compact shall enter into force on the later of (a) the date of the last letter in an exchange of letters between the Principal Representatives confirming that each Party has completed its domestic requirements for entry into force of this Compact and (b) the date that all conditions set forth in Section 7.2 have been satisfied.

Section 7.4 Compact Term. This Compact shall remain in force for five years after its entry into force, unless terminated earlier under Section 5.1 (the “**Compact Term**”).

ARTICLE 8.
CONSULTATIONS

Section 8.1 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any relevant supplemental agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within thirty (30) days from the commencement of the consultations, then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than sixty (60) days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.1(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner and by the principles of international law. Any dispute arising under or related to this Compact shall be determined exclusively through the consultation mechanism set forth in this Section 8.1.

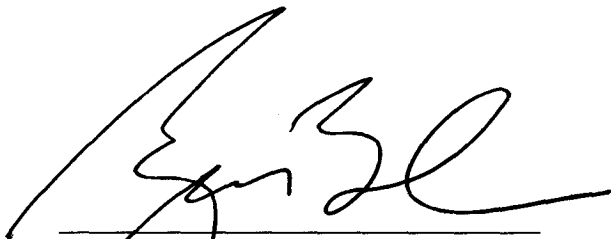
SIGNATURE PAGE BEGINS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 17th day of February, 2008.

Done at Dar es Salaam, Tanzania

FOR MILLENNIUM CHALLENGE
CORPORATION, ON BEHALF OF THE
UNITED STATES OF AMERICA

FOR THE GOVERNMENT OF THE
UNITED REPUBLIC OF TANZANIA



George W. Bush
President of the United States of America



Jakaya Mrisho Kikwete
President of the United Republic of Tanzania

ANNEX I

PROGRAM DESCRIPTION

A. OVERVIEW

This Annex I to this Compact describes the Program that MCC Funding will support in Tanzania during the Compact Term. The Program will include the Transport Sector Project, the Energy Sector Project and the Water Sector Project (each, a “**Project**”) and the activities related to the Projects (each, a “**Project Activity**”) as described in this Annex I.

1. Background.

The United Republic of Tanzania (“**Tanzania**”), comprised of the mainland and Zanzibar, is surrounded by eight countries (consisting of Kenya, Uganda, Rwanda, Burundi, Democratic Republic of Congo, Zambia, Malawi, and Mozambique) and the Indian Ocean. Tanzania is a country of approximately 39 million people. Nearly 36 percent of the mainland population and 49 percent of the Zanzibar population live below the poverty line. An inadequate transportation network, an inadequate and unreliable supply of energy and a shortage of potable water are three key constraints to economic growth and private investment in Tanzania. The Program is designed specifically to address these constraints.

2. Program.

The Program consists of the Transport Sector Project, the Energy Sector Project, and the Water Sector Project, as further described below.

The Parties may agree to modify or eliminate any Project or Project Activity, or to create a new project or project activity, in writing signed by the Principal Representative of each Party without amending this Compact; *provided, however*, that any such modification or elimination of a Project or Project Activity, or creation of a new project or project activity, shall not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1 of this Compact, cause the Government’s responsibilities or contribution of resources to be less than specified in this Compact, or extend the Compact Term.

3. Consultative Process.

The consultative process for the Program was informed by, and anchored in, the consultative process conducted in connection with the Government’s National Strategy for Growth and Reduction of Poverty which was finalized in 2005 (commonly referred to by the Swahili acronyms “**MKUKUTA**” and “**MKUZA**,” for the mainland and Zanzibar, respectively). The Government organized national outreach activities and held various meetings relating to the Program proposal with key stakeholders, including representatives from local governments, members of parliament, and non-governmental organizations. The Government also engaged the media to inform the public about the proposal for Millennium Challenge Account assistance with a series of press releases, radio and television interviews, and press conferences.

4. Environmental and Social Sustainability.

Tanzania enjoys a complex and rich environmental and social resource base. In order to achieve long-term sustainable growth and to achieve maximum Program impact, these natural resources (including abundant wildlife and ecological diversity, cultural resources, and coastal and marine life) will be safeguarded through the implementation of several programmatic and sectoral mitigation measures for the Compact Term, as follows:

(a) The Government shall comply with MCC Environmental Guidelines and the gender policy delivered by the MCC to the Government or posted on the MCC Website or otherwise publicly made available (the “**MCC Gender Policy**”). The Government also shall adhere to Tanzanian environmental laws and regulations, including the Government of Tanzania National Environmental Policy of 1997, the 2004 Environmental Management Act, and the 2005 Environmental Impact Assessment and Audit Regulations. In addition, for projects on Zanzibar, the Government shall ensure that all implementing entities comply with the 1992 National Environmental Policy for Zanzibar and the Environmental Management for Sustainable Development Act (No. 2 of 1996).

(b) On-Going Consultation. To ensure the environmental and social sustainability of the Program, MCA-Tanzania shall develop and implement plans for comprehensive public consultations in which various stakeholders in the Program (including women and other underrepresented groups) are afforded meaningful consultation and opportunities to provide their inputs to the design and implementation of the Program, which public consultations will primarily be conducted by the special consultative committees described in Section 2(c) of part E of this Annex I. In compliance with the MCC Environmental Guidelines, all environmental and social impact assessments (“**ESIAs**”) and all other relevant environmental and social assessment documentation will be posted on the MCA-Tanzania website.

(c) Gender Integration Action Plan. To maximize the positive social impacts of the Program, MCA-Tanzania shall develop and implement a gender integration plan (for both the mainland and Zanzibar) that includes, among other things, approaches for meaningful and inclusive consultations with women and other underrepresented groups, a gender analysis for each Project Activity, as appropriate, and strategies for incorporating findings of the gender analysis into the design of each such Project Activity (the “**Gender Integration Action Plan**”). The Gender Integration Action Plan will be posted on the MCA-Tanzania website.

(d) HIV/AIDS Awareness. MCA-Tanzania shall develop and implement an action plan for incorporating targeted HIV/AIDS awareness programs into all phases of implementation of the Program. Such action plan specifically shall ensure (i) the incorporation of the HIV/AIDS awareness programs into the terms of reference (and the bidding documents) for the relevant contractors (including design or supervisory firms, construction firms, independent technical auditing firms and any project management advisors) and (ii) independent monitoring of each such contractor’s compliance with these awareness programs throughout the Compact Term.

(e) Capacity Building; Resource Management. MCC Funding may be used:

(i) To provide capacity building to the National Environmental Management Council (“**NEMC**”) and the Zanzibar Department of Environment (“**ZDOE**”) in order (1) to enhance both NEMC’s and ZDOE’s abilities to address issues arising in connection with the

implementation of the Program and (2) to support MCA-Tanzania's hiring of an environmental and social oversight consultant to assist MCA-Tanzania in ensuring their compliance with various environmental and social requirements under the Compact; and

(ii) To support community-based natural resource and wildlife management programs being undertaken by other donors, particularly where deforestation, wildlife migration and trafficking risks have been identified as possible in connection with the implementation of certain Project Activities.

(f) Mitigation Measures. MCC Funding will be used to implement all environmental and social mitigation measures identified in the relevant environmental assessments (or as otherwise may be appropriate) of the Program, including (i) up to a maximum amount specified by the MCC, compensation for physical and economic displacement of individuals, residences and businesses affected by the rehabilitation, consistent with the World Bank's Operational Policy 4.12, (ii) implementation of HIV/AIDS awareness plans, and (iii) continuing advocacy, training and support for community-based resource management.

5. Proposals.

Public solicitations for proposals are anticipated to procure goods, works and services, as appropriate, to implement all Projects. MCA-Tanzania will develop, subject to MCC approval, a process for consideration of all such proposals. Notwithstanding the foregoing, MCA-Tanzania also may consider, using a process developed by MCA-Tanzania and approved by the MCC, any unsolicited proposals it receives.

B. TRANSPORT SECTOR PROJECT

1. Background.

Transportation infrastructure in Tanzania is inadequate to meet the needs of the country's widely dispersed population; less than seven percent of Tanzania's roads are bitumen surfaced, with the remainder gravel or earth. The Transport Sector Project addresses this constraint to growth by reducing transport costs and travel times, which will facilitate access to social services and markets and will increase tourism potential. Additionally, in areas where the roads are currently impassable for certain parts of the year, road rehabilitation will provide year-round access to markets, thus facilitating increased agricultural activity.

Similarly, access to Mafia Island is limited by the poor condition of its airport and lack of feasible alternative transportation options. Resurfacing the airport's runway and improving other airport facilities will allow for easier, more efficient, and safer access to the island, resulting in increased tourist and business travel to and from the mainland and additional jobs on the island.

2. Project.

The Transport Sector Project consists of the following Project Activities:

(a) Mainland Trunk Roads Activity.

MCC Funding will be used to make improvements to three trunk roads on the mainland. Improvement of any such trunk roads will only be undertaken under this Compact and funded

with MCC Funding if all necessary construction and construction supervision contracts for such trunk road are executed and in effect prior to the first anniversary of the entry into force of this Compact. Specifically, MCC Funding will support:

(i) Rehabilitation of the following three trunk roads:

- (1) Tanga – Horohoro Road. Upgrading from gravel to asphalt concrete of the 68 km stretch of highway located in northeast Tanzania connecting the seaport of Tanga with Horohoro at the Kenyan border;
- (2) Tunduma – Sumbawanga Road. Upgrading from gravel to double bituminous surfacing of the southernmost 224 km stretch of the T9 trunk road (known as the western corridor), with the exception of the approximately two km stretch in Tunduma and the approximately eight km stretch in Sumbawanga, both of which will be paved with asphalt concrete; and
- (3) Mtwara Corridor. Upgrading from earth to double bituminous surfacing two sections of the Mtwara Corridor (known as the southern corridor) consisting of (A) the 61 km stretch between Namtumbo and Songea and (B) 78 km stretch from Peramiho Junction (that is about 20 km west of Songea) to Mbinga.

(ii) Construction supervision of all rehabilitated roads under the Mainland Trunk Roads Activity.

(iii) Additional environmental assessments, together with any resulting resettlement action plans (“**RAPs**”) (consistent with World Bank Operational Policy 4.12) and environmental management plans (“**EMPs**”), each as satisfactory to the MCC, and wildlife migration studies and aforementioned community-based natural resource and wildlife management programs, as needed.

(iv) Capacity building for the Tanzania National Road Agency (“**TANROADS**”) related to new staff and equipment required to manage the Mainland Trunk Roads Activity.

(v) Assistance to TANROADS in preparation of design documentation and bid packages.

TANROADS will be the Implementing Entity (as defined below) for the Mainland Trunk Roads Activity.

(b) Zanzibar Rural Roads Activity.

MCC Funding will be used to make improvements to selected rural roads on the Zanzibar island of Pemba. Specifically, MCC Funding will support:

(i) Feasibility studies, final design, and any additional environmental and social assessments, together with any resulting RAPs (consistent with World Bank Operational

Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC, of the following five roads (each identified together with its approximate length): (1) Mzambarauni Takao – Finya Road (8.3 km), (2) Mzambarauni Karimu – Mapofu Road (8.3 km), (3) Bahanasa – Daya-Mtambwe Road (13.1 km), (4) Chwale – Kojani Road (two km) and (5) Kipangani – Kangagani Road (three km).

(ii) Rehabilitation and posting of signage and incorporation of other safety improvements of the roads selected from the five roads described in Section 2(b)(i) above based on, among others, technical construction plans capable of being completed during the Compact Term, reasonable conformity to the priorities of Zanzibar's transportation master plan, and an economic rate of return methodology acceptable to the MCC (agreed upon between the Parties prior to the commencement of any feasibility study described in Section 2(b)(i) above).

(iii) Project management and construction supervision of all rehabilitated roads under the Zanzibar Rural Roads Activity.

An engineering firm will be hired, following an international competitive procurement and selection process, to implement this Project Activity. The Government will ensure that the Ministry of Communications and Transport of Zanzibar cooperates with MCA-Tanzania to oversee this selected firm.

(c) Road Maintenance Activity.

MCC Funding will be used to enhance Tanzania's capacity to maintain its road network. Specifically, MCC Funding will support priority institutional and capacity limitations, as identified and agreed to by the MCC and the Government prior to the second anniversary of the entry into force of this Compact. Such support may be provided, among other ways, in improvements of strategic maintenance planning, and management of routine and periodic maintenance contracts of TANROADS and the Ministry of Communication and Transport of Zanzibar.

(d) Mafia Island Airport Activity.

MCC Funding will be used to rehabilitate and upgrade the airport on Mafia Island. MCC Funding will support:

(i) Refurbishment of the runway, apron and taxiway, establishment of boundary security, refurbishment of the fire station, refurbishment of the terminal building and its water supply, and installation of communication equipment, the scale and scope of which will be contingent on the findings of a strategic environmental assessment.

(ii) Project coordination and construction supervision for the activities described in Section 2(d)(i) above.

(iii) Additional environmental assessments, together with any resulting RAPs (consistent with World Bank Operational Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC.

(iv) Capacity building at the Tanzania Airports Authority (“**TAA**”) related to improvements in strategic maintenance planning and management of routine and periodic maintenance contracts.

TAA will be the Implementing Entity for the Mafia Island Airport Activity.

3. Beneficiaries.

The upgrading of mainland and Zanzibar roads will benefit users of the roads directly by reducing transportation costs and travel times. In addition, individuals living near the roads will indirectly benefit from increased access to social services and markets. The improvements to the Mafia Island airport will directly benefit approximately 12,000 passengers traveling to the island each year, while indirectly benefiting the population of the island, particularly those engaged in the service sector.

4. Donor Coordination; Role of Private Sector and Civil Society.

The MCC, together with the Government, will continue to pursue opportunities to coordinate with the “**Joint Technical Committee**,” the principal development partner for projects in the transportation sector in Tanzania, consisting of representatives from the European Union, World Bank, African Development Bank (“**AfDB**”) and the governments of Norway, Denmark and Japan. The mainland roads included in the Transport Sector Project originated in the Government’s ten-year “Transport Sector Investment Program” (also known as “**TSIP**”), which has been reviewed, discussed and approved by the Joint Technical Committee and other stakeholders.

The implementation of the Mafia Island Airport Activity will be coordinated with the feasibility study, the ESIA and design for Tanzanian airport upgrades (including airside pavements and other facilities) currently being funded by the World Bank.

Private sector firms are expected to participate in the bids, and perform, studies, design, construction, and construction supervision associated with the Transport Sector Project.

5. United States Agency for International Development (“USAID**”).**

While the USAID currently does not focus specifically on Tanzania’s transportation sector, the MCC and the USAID, with the cooperation of the Government, will work to identify potential opportunities for coordination on the Transport Sector Project, including opportunities for community-based natural resource and wildlife management programs within those regions affected by roads rehabilitated under the Transport Sector Project.

6. Sustainability.

In order to provide continued institutional support for the Transport Sector Project, the Government will undertake certain commitments described in Section 7 below. The Road Maintenance Activity will enhance the Transport Sector Project’s sustainability by improving the Government’s capability to perform maintenance (both on the mainland and on Zanzibar). The Government is expected to commit additional resources to maintain the roads rehabilitated under the Transport Sector Project. While it is unlikely that the Transport Sector Project will result in any significant negative environmental and social impacts, the potential direct, indirect, induced,

and cumulative environmental impacts of the Transport Sector Project will be examined through the execution of appropriate environmental assessments to be conducted during the final design phase of the Project Activities of the Transport Sector Project, and appropriate mitigation measures will be implemented. The Mafia Island Airport Activity will be subject to the results of a strategic environmental assessment. This assessment will help ensure that all MCC investments in the airport result in improved conditions for tourism and private sector growth and are implemented in the context of sustainable long-term development with a focus on natural resource and wildlife management.

7. Policy, Legal and Regulatory Reforms.

The implementation by the Government, to the satisfaction of the MCC in its discretion, of the policy, legal and regulatory reforms described below shall be conditions precedent to the specified Disbursements.

(a) Prior to the initial disbursement of MCC Funding for the Mainland Roads Activity, the National Road Act (as submitted to the President for Signature in July 2007) shall have been enacted, and is in full force and effect, and the National Road Safety Policy and Strategy (in form and substance as prepared by the Ministry of Infrastructure Development in May 2007) shall have been adopted by the Government.

(b) In the interest of long-term sustainability of the mainland roads network, the Government's expenditures for road maintenance shall be increased each Tanzanian fiscal year during the Compact Term, which increase will take into account inflation and maintenance needs of existing, improved and newly constructed roads.

(c) In the interest of long-term sustainability of the Zanzibar roads network, the Government of Zanzibar's expenditures for road maintenance shall be increased each Tanzanian fiscal year during the Compact Term, which increase will take into account inflation and maintenance needs of existing, improved and newly constructed roads.

(d) Prior to the initial disbursement of MCC Funding for construction on the Mainland Roads Activity, the Government shall finalize the TSIP or any shorter-term plan based on the TSIP acceptable to the Joint Technical Committee that provides funding priority to those projects identified in the TSIP.

(e) Prior to the initial disbursement of MCC Funding for construction on the Mainland Roads Activity, the Government shall prepare and begin implementation of a plan, in consultation with the Joint Technical Committee, for future legislative reform in the transportation sector, including the increased autonomy of TANROADS.

C. ENERGY SECTOR PROJECT

1. Background.

Tanzania has one of the lowest electrification rates in the world, with only about ten percent of the population benefiting from electric power service. Where electricity is available, the quality of supply is poor and blackouts and service interruptions are common. Consequently, businesses, individuals, and service providers suffer from the lack of access to reliable, affordable and modern energy services. The Energy Sector Project aims to improve the quality

and increase the quantity of electricity to businesses and households, thereby increasing investment potential. The Energy Sector Project will add new supply and transmission capacity to improve reliability and quality of energy and new distribution capacity to extend access to electricity to communities and businesses not currently served with electricity.

2. Project.

The Energy Sector Project consists of the three Project Activities described below. Tanzania Electric Supply Company Limited (“**TANESCO**”) will be the Implementing Entity for each Project Activity of the Energy Sector Project. For the Zanzibar Interconnector Activity, TANESCO will coordinate and consult with Zanzibar Electricity Corporation (“**ZECO**”).

(a) Zanzibar Interconnector Activity.

MCC Funding will be used to increase the electric power supply to Zanzibar’s Unguja Island by laying a submarine transmission cable, to make associated investments to increase the capacity of certain overhead transmission lines and to rehabilitate the main substation near Zanzibar Town. Specifically, MCC Funding will support:

(i) Final design, and an environmental assessment, together with any resulting RAPs (consistent with World Bank Operational Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC, and occupational health and safety standards.

(ii) Construction and installation of an approximately 40 km-long, 132kV, 100MW capacity submarine electric transmission cable (including telecom fiber optic shield wire) from Ras Kiromoni on the mainland to Ras Fumba on Unguja Island.

(iii) Installation of a 132kV switchgear at Ubungu substation and laying of an approximately 20 km-long, supplementary 132kV overhead line along an existing transmission line from Ubungu to Ras Kiromoni.

(iv) Laying of an approximately 22 km-long, supplementary 132kV overhead line along an existing transmission line from Ras Fumba to Mtoni substation.

(v) Adding 120MVA of 132/33kV transformation capacity to the Mtoni substation on Unguja Island.

(vi) Capacity building and technical support for TANESCO and ZECO, including assistance with preparation of engineering design and bidding documents, tender review, supervision of construction, project management, and quality control.

(vii) Project coordination and construction supervision of all improvements and upgrades under the Zanzibar Interconnector Activity.

(b) Malagarasi Hydropower and Kigoma Distribution Activity.

MCC Funding will be used to construct a small (up to eight MW) run-of-river hydropower plant on the Malagarasi River at Igamba Falls, and to construct a transmission and distribution network along the Kigoma, Uvinza and Kasulu corridor to serve approximately 21,000 customers. Specifically, MCC Funding will support:

(i) Final design, and supplemental environmental and social assessments consistent with the sustainability issues identified below, together with any resulting RAPs (consistent with World Bank Operational Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC, and occupational health and safety standards.

(ii) Engineering and construction of (1) civil works including an approximately 24 km access road, a 300 m long concrete faced rockfill dam (of which about 200 m will be eight m high), and an approximately 650 m long headrace canal, (2) electro-mechanical works including the powerhouse consisting of turbines, eight MW of power generators and a voltage step-up substation, and (3) hydro-mechanical works including intake gates, bottom outlets, and two steel penstocks (estimated to be 110 m long).

(iii) Engineering and construction of (1) transmission and distribution line extensions including up to 392 km of 33kV distribution lines, ten km of 11kV lines, and 171 km of low voltage lines to distribute power generated at the hydropower plant described in this Section 2(b) to Kigoma, Uvinza, Kasulu and small settlements along the corridor, and (2) associated upgrades including step-down substations, electrical protection and related minor civil works.

(iv) Capacity building and technical support for TANESCO, including assistance with preparation of the engineering design and bidding documents, tender review, supervision of construction, project management, and quality control.

(v) Project coordination and construction supervision of all improvements and upgrades under the Malagarasi Hydropower and Kigoma Distribution Activity.

(vi) Assessment and design of a public-private partnership for the independent operation of the mini-grid system in Kigoma which includes the hydropower plant, transmission and distribution network, and service delivery, and competitive procurement of an operator concessionaire.

(c) Distribution Systems Rehabilitation and Extension Activity.

MCC Funding will be used to rehabilitate existing power distribution assets and to extend the distribution network in six regions (consisting of Mwanza, Iringa, Mbeya, Dodoma, Tanga and Morogoro) to serve approximately 215,000 customers. Specifically, MCC Funding will support:

(i) Final design, and environmental and social assessment frameworks, together with any resulting RAPs (consistent with World Bank Operational Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC, and occupational health and safety standards.

(ii) Construction of up to 247 distribution line extensions consisting of new 33kV, 11kV, and low voltage lines and customer connections in the six regions.

(iii) Reinforcement and rehabilitation of up to 22 substations in the six regions, including new and replacement transformers and switchgear.

(iv) Capacity building and technical support for TANESCO, including assistance with preparation of the engineering design and bidding documents, tender review, supervision of construction, project management, and quality control.

(v) Project coordination and construction supervision of all improvements and upgrades under the Distribution Systems Rehabilitation and Extension Activity.

3. Beneficiaries.

The total number of beneficiaries of the Energy Sector Project by 2020 is estimated to be 252,000 households and businesses receiving better quality and availability of electricity, as well as approximately 88,000 previously un-served households and businesses receiving electricity for the first time.

The Malagarasi Hydropower and Kigoma Distribution Activity is expected to directly benefit approximately 13,000 newly served households and businesses by 2020 through new connections to the electricity grid; an additional 7,000 households, businesses and institutions (such as port operations, fish and agricultural processing facilities, tourism facilities, and a hospital) are likely to benefit from power that is more available and reliable, less costly, and of better quality. In addition, the Distribution Systems Rehabilitation and Extension Activity is expected to reach approximately 47,000 beneficiaries through newly served households and businesses by 2020 and 187,000 beneficiaries through existing households and businesses. Agricultural processing, small-scale retail and the service industry (such as commercial retailers and restaurants) are among the main sectors that will benefit from the availability of increased, more reliable, and better quality power supply. The Zanzibar Interconnector Activity is expected to provide significant benefits to energy consumers in Unguja and to assist growth in its vital tourism sector.

4. Donor Coordination; Role of Private Sector and Civil Society.

Donors, including the governments of Sweden, Norway, Japan, the World Bank and the AfDB, among others, play an active role in improving Tanzania's energy sector through technical assistance and infrastructure projects. The Energy Sector Project has benefited significantly from these donors' activities. For example, the Malagarasi hydropower plant project benefited from a pre-feasibility study financed by the AfDB. The MCC's due diligence review of the Distribution Systems Rehabilitation and Extension Activity benefited from active support of the Swedish International Development Cooperation Agency and the World Bank.

The Government has been engaged in an extensive consultative process that allowed civil society, along with the business community, to discuss local needs and priorities relating to the Energy Sector Project. Such consultation is expected to continue during the implementation of the Energy Sector Project.

5. USAID.

The USAID currently does not have activities specifically in Tanzania's energy sector. However, as appropriate, the MCC and the USAID, with the cooperation of the Government, will work to identify potential opportunities for coordination on the Energy Sector Project, especially in connection with community-based natural resource and wildlife management programs in proximity to the Project Activities of the Energy Sector Project.

6. Sustainability.

To enhance institutional sustainability of the Energy Sector Project, the Government will undertake certain reforms described in Section 7 below. Hiring of qualified engineering, design, construction and supervisory firms to implement the Energy Sector Project, and provision of necessary technical assistance to TANESCO is expected to contribute to the sustainability of the Energy Sector Project as well.

While it is unlikely that the Energy Sector Project will result in any significant negative environmental impacts, the potential direct, indirect, induced, and cumulative environmental impacts of the Energy Sector Project will be examined through the execution of appropriate environmental assessments to be conducted during the final design phase of the Energy Sector Project, and will be addressed through implementation of appropriate mitigation measures. Specifically, potentially significant resettlement issues associated with the current transmission line design under the Zanzibar Interconnector Activity will be mitigated through rerouting of the cable through open or less densely populated areas. In addition, under the Malagarasi Hydropower and Kigoma Distribution Activity, detailed studies will be required to assess the impact of reduced water flows and determine minimum ecological flows, to assess needs for fish migration to spawning grounds, and to study water quality impacts and potential impacts of water-related diseases. Detailed access road alignments and distribution line alignments will be completed and assessed, and land acquisition needs confirmed to allow for the preparation of a RAP. Further study on the Malagarasi hydropower plant's relationship with other proposed hydropower and irrigation activities on the Malagarasi River and potential cumulative effects, if any, will be required, in addition to considerations of both upstream and downstream usage. The environmental assessment to be undertaken in connection with the Distribution Systems Rehabilitation and Extension Activity will include special attention to the Iringa site, in which some of the distribution lines will cross within the boundaries of the Ruaha National Park.

7. Policy, Legal and Regulatory Reforms.

The implementation by the Government, to the satisfaction of the MCC in its discretion, of the policy, legal and regulatory reforms described below shall be conditions precedent to the specified Disbursements.

(a) An Electricity Act, agreeable to stakeholders including the MCC, is enacted and in full force and effect prior to the initial disbursement of MCC Funding for the Energy Sector Project.

(b) The Government shall support TANESCO's corporate objective of moving towards financial self-sufficiency through, at a minimum, tariff reform that reflects full cost recovery, prior to the initial disbursement of MCC Funding for the Energy Sector Project.

(c) The Government shall ensure that the composition of TANESCO's board of directors is such that a majority of board members are independent and professional members, with private sector representation, prior to the initial disbursement of MCC Funding for the Energy Sector Project.

D. WATER SECTOR PROJECT

1. Background.

Tanzania faces a serious shortage of access to potable water, resulting in a high incidence of water-related diseases, decreased workforce productivity, and constrained business growth. The Water Sector Project includes investments in bulk water supply for two urban areas, Dar es Salaam and Morogoro, which investments will increase the quantity and reliability of potable water for domestic and commercial use. By increasing the volume of water supply, the Water Sector Project is expected to reduce the incidence of water-related disease, increase time available for productive activities including education, promote greater investments in physical capital, and, ultimately, lead to an increase in income.

2. Project.

The Water Sector Project consists of the three Project Activities described below. These Project Activities are expected, individually and jointly, to improve significantly the water supply to Dar es Salaam and Morogoro as described below.

(a) Lower Ruvu Plant Expansion Activity.

MCC Funding will be used to expand the capacity of the Lower Ruvu water treatment plant serving the Dar es Salaam area, from about 180 million liters per day to approximately 270 million liters per day. Specifically, MCC Funding will support:

(i) Feasibility studies, final design and an environmental and social assessment, together with any resulting RAPs (consistent with World Bank Operational Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC, and occupational health and safety standards.

(ii) Raw water system (e.g., grit chamber and pumps), treatment system (e.g., flow diversion chamber, crossflow clarifier, declining rate filters, and chemical feed facilities), treated water system (e.g., high service pump station and clearwell), power and controls system, and solid handling facility (e.g., sludge lagoon system).

(iii) Capacity building and technical support for Dar es Salaam Water and Sewerage Authority ("**DAWASA**").

(iv) Project coordination and construction supervision of all improvements and upgrades under the Lower Ruvu Plant Expansion Activity.

DAWASA will be the Implementing Entity for the Lower Ruvu Plant Expansion Activity.

(b) Non-Revenue Water Activity.

MCC Funding will be used to improve the system efficiencies of DAWASA through reduction of non-revenue water via reduction in physical leaks and commercial losses. Specifically, MCC Funding will support:

(i) A comprehensive assessment of both (1) the locations and volumes of physical leaks and (2) billing and collection deficiencies and losses.

(ii) An environmental assessment, together with any resulting RAPs (consistent with World Bank Operational Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC.

(iii) Preparation of a performance-based contract with, and a procurement of, a private operator that will implement the non-revenue water reduction program based on specific benchmarks established in the assessment described in Section 2(b)(i) above.

(iv) Capacity building and technical support for Dar es Salaam Water and Sewerage Company (“**DAWASCO**”) and DAWASA pertaining to the performance-based contract described in Section 2(b)(iii) above and system-wide planning and operations.

(v) Project coordination and construction supervision of all improvements and upgrades under the Non-Revenue Water Activity.

DAWASA is expected to be the Implementing Entity for the Non-Revenue Water Activity.

(c) Morogoro Water Supply Activity.

MCC Funding will be used to improve water supply in Morogoro and to help Morogoro Water and Sewerage Authority (“**MORUWASA**”) move towards achieving financial sustainability. Specifically, MCC Funding will support:

(i) Revised master plan, feasibility studies, final design and an additional environmental assessment, together with any resulting RAPs (consistent with World Bank Operational Policy 4.12) and EMPs, each as needed and as satisfactory to the MCC.

(ii) Rehabilitation of Mambogo water intake and water treatment plant, including a water treatment plant with approximate capacity of 6,000,000 million liters per day, and associated works.

(iii) Improvements of water transfer in the existing distribution network, including rehabilitation of Mafiga water treatment plant facilities, about 1.9 km of pressure main, and associated works.

(iv) Capacity building and technical support for MORUWASA.

(v) Project coordination and construction supervision of all improvements and upgrades under the Morogoro Water Supply Activity.

MORUWASA will be the Implementing Entity for the Morogoro Water Supply Activity.

3. Beneficiaries.

The Water Sector Project is expected to benefit approximately 616,000 households in Dar es Salaam and approximately 51,000 households in Morogoro by providing better quality and more reliable water supply. Businesses relying on network water will also benefit from these service

improvements. Benefits from the Project Activities under the Water Sector Project include reductions in water-related disease, increased time available for productive activities such as labor and education, and increased investments in physical and human capital.

4. Donor Coordination; Role of Private Sector and Civil Society.

All the components of the Water Sector Project are priority projects identified under the Water Sector Development Program 2006-2025 (“**WSDP**”). The WSDP was designed under the sector wide approach to planning with the objectives of equity of water access, water management capacity, and proper maintenance of water and sanitation systems, use of environmentally sound technologies and effective water tariffs, billing and revenue collection mechanism. The donors participating in the WSDP include the governments of Germany, the Netherlands, France, and Japan as well as the United Nations Development Programme, the United Nations Children’s Fund, Food and Agriculture Organization and the AfDB (collectively referred to as the “**Development Partners Group - Water**”). The MCC has been coordinating with the Development Partners Group - Water, and will continue to explore opportunities to use various features of the WSDP, to the maximum extent possible, in order to reduce transaction costs and avoid building parallel structures.

Private sector firms are expected to participate in the bids, and perform, studies, design, construction, and construction supervision associated with the Water Sector Project.

5. USAID.

Various USAID projects in Tanzania include components related to the water sector, although no current USAID program is exclusively focused on the water sector. The USAID is actively engaged in water policy matters in Tanzania, including through the USAID’s participation in the Development Partners Group - Water. The MCC expects to work with the USAID to identify potential opportunities for coordination with respect to the Water Sector Project.

6. Sustainability.

By strengthening and enhancing operations of the water and sewerage authorities in two major urban locations, the Water Sector Project seeks to enhance the sustainable operation of Tanzania’s water sector. The water and sewerage authorities will be required to submit rate cases aimed at achieving operational and maintenance financial sustainability within the Compact Term and a sustainable trend for recovery of asset depreciation. While it is unlikely that the Water Sector Project will result in any significant negative environmental impacts, the potential direct, indirect, induced, and cumulative environmental impacts of the Water Sector Project will be examined through the execution of appropriate environmental assessments to be conducted during the final design phase of the Water Sector Project, and appropriate mitigation measures will be implemented. For those Project Activities of the Water Sector Project that relate to water supply, MCA-Tanzania will ensure that feasibility studies include efforts to identify the most appropriate and environmentally sustainable water sources to meet future demand and are available to the poor. In addition, MCA-Tanzania will ensure that EMPs are developed, implemented and monitored for all Project Activities of the Water Sector Project, each in accordance with the provisions of this Compact and any relevant supplemental agreements. MCA-Tanzania also will pay particular attention to gender issues to support the

sustainability and enhance the design of each Project Activity of the Water Sector Project through the Gender Integration Action Plan and final design.

E. IMPLEMENTATION

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring and evaluation and fiscal accountability for the use of MCC Funding is summarized below. The MCC and the Government shall enter into the PIA, and any other agreements in furtherance of this Compact, all of which, together with this Compact, shall set out certain rights, responsibilities, duties and other terms relating to the implementation of the Program.

1. MCC.

The MCC shall take all appropriate actions to carry out each of its responsibilities in connection with this Compact and the PIA, including the exercise of its approval rights in connection with the implementation of this Compact and the Program.

2. Government; MCA-Tanzania; Consultative Committees.

(a) The Government shall form an entity empowered to carry out the Government's obligations and to implement the Program under this Compact and the PIA ("**MCA-Tanzania**," which, as an institution of the Government, is, for the avoidance of doubt, included in the defined term "**Government**"), and shall ensure that MCA-Tanzania takes all appropriate actions to implement the Program, including the performance of the rights and responsibilities designated to it by the Government pursuant to this Compact and the PIA.

(i) Governing Board. MCA-Tanzania shall be governed by a governing board ("**Governing Board**") that will have final decision-making authority over the implementation of the Program. The Governing Board shall consist of: seven representatives from the Government, including at least one representative of Zanzibar, and four representatives from the private sector and the civil society, at least one of whom shall represent an environmental non-governmental organization and at least one of whom shall be from Zanzibar. The private sector and civil society representatives shall be selected as the result of a transparent selection process approved by the MCC. The Governing Board composition shall be determined taking to account the need for gender balance among the Governing Board members.

(ii) Secretariat. A secretariat ("**Secretariat**") shall support the Governing Board in the implementation of the Program. A Chief Executive Officer will manage the day-to-day activities of MCA-Tanzania and will be supported by: (1) Deputy Chief Executive Officer (Tanzania mainland); (2) Deputy Chief Executive Officer (Zanzibar); (3) Director of Finance and Administration; (4) Director of the Transport Sector Project; (5) Director of the Energy Sector Project; (6) Director of Water Sector Project; (7) Director of Procurement; (8) Director of Environmental and Social Impact; (9) Director of Monitoring and Evaluation; (10) General Counsel; and (11) Internal Auditor; together with such other managers and officers as may be agreed upon by the Government and the MCC. The senior staff shall be supported by appropriate administrative personnel.

(b) With prior written consent of the MCC, the Government may designate an entity to implement some or all of the Government's obligations or to exercise any rights of the

Government under this Compact or the PIA. The Government's designation to an entity (whether MCA-Tanzania or otherwise) will not relieve the Government of any designated obligations and rights, for which the Government will retain full responsibility. For the avoidance of doubt, upon any such designation, any reference in this Compact, the PIA or any related agreement to an action or requirement of the Government or to an agreement to which the Government is a party shall be a reference to the Government and each such designated entity.

(c) The Government shall establish special consultative committees that will continue the consultative process throughout the Compact Term. These special consultative committees shall be established satisfactory to the MCC and consistent with the MCC's Guidelines for Accountable Entities and Implementation Structures delivered by the MCC to the Government or posted on the MCC Website or otherwise made publicly available. The members of each special consultative committee shall include non-governmental organizations, the private sector, civil society, and local and regional governments from the applicable region. The membership of these special consultative committees shall be determined taking to account the need for gender balance among the special consultative committee members and shall be agreed to between MCA-Tanzania and the MCC. Each special consultative committee shall provide advice and input to the Governing Board and the Secretariat regarding issues related to the implementation of the Program, shall meet regularly (in a format and on a schedule to be agreed to between the MCC and the Government) and shall receive regular Program updates from MCA-Tanzania. These special consultative committees will not have decision-making authority, but will serve as a mechanism for ongoing consultations between the Government and the public.

(d) MCA-Tanzania may provide MCC Funding to one or more pre-determined ministries, bureaus or agencies of the Government ("**Implementing Entity**") based on their expertise to implement any Project, Project Activity or any of its components under an agreement that sets forth the responsibilities of such Implementing Entity and any other appropriate terms and conditions ("**Implementing Entity Agreement**").

3. Banking Services, Fiscal Management and Procurement.

(a) The Government shall ensure that a bank ("**Bank**") is appointed, and the Permitted Accounts are established and banking services provided, in accordance with the terms of this Compact and the PIA who will provide a broad range of banking services required by MCA-Tanzania to implement the Program. The Government shall take all appropriate actions to ensure that the Bank perform these services in accordance with the terms of this Compact, the PIA and any other agreements to which the Bank is a party. The Government shall set out the roles and responsibilities of the Bank in one or more agreements with the Bank to be entered into between MCA-Tanzania and the Bank ("**Bank Agreement**").

(b) The Government shall ensure that a fiscal agent ("**Fiscal Agent**") is appointed in accordance with the terms of this Compact and the PIA who will provide a broad range of financial management services required by MCA-Tanzania to implement the Program. The Government shall take all appropriate actions to ensure that the Fiscal Agent perform these services in accordance with the terms of this Compact, the PIA and any other agreements to which the Fiscal Agent is a party and in accordance with internationally accepted standards of accounting and financial management. The Government shall set out the roles and responsibilities of the Fiscal Agent in one or more agreements with the Fiscal Agent to be entered into between MCA-Tanzania and the Fiscal Agent ("**Fiscal Agent Agreement**").

(c) The Government shall ensure that one or more procurement agents (each, a ***“Procurement Agent”***) are appointed in accordance with the terms of this Compact and the PIA who will provide specified procurement activities required by MCA-Tanzania to implement the Program. The Government shall take all appropriate actions to ensure that each Procurement Agent perform these services in accordance with the terms of this Compact, the PIA and any other agreements to which the Procurement Agent is a party and in accordance with the MCC Program Procurement Guidelines. The Government shall set out the roles and responsibilities of each Procurement Agent in one or more agreements with such Procurement Agent to be entered into between MCA-Tanzania and the Procurement Agent (***“Procurement Agent Agreement”***).

ANNEX II

PROGRAM BUDGET

1. General.

The Multi-Year Financial Plan Summary below sets forth the estimated annual contribution of MCC Funding for Program administration, Program monitoring and evaluation, and implementing each Project. The Government's contribution of resources will consist of "in-kind" and other contributions or amounts required effectively to satisfy the requirements of Section 2.5(a) of this Compact. In accordance with the PIA, the Government will develop and adopt on a quarterly basis a detailed financial plan (as approved by the MCC) setting forth annual and quarterly funding requirements for the Program (including administrative costs) and for each project, projected both on a commitment and cash requirement basis.

2. Modifications.

To preserve administrative flexibility, the Parties may by written agreement (or as otherwise provided in the PIA), without amending this Compact, change the designations and allocations of funds among the Projects, the Project Activities, or any activity under Program administration or monitoring and evaluation, or between a Project identified as of entry into force of the Compact and a new project; *provided, however*, that any such change (a) is consistent with the Project Objectives and the PIA, (b) does not materially adversely affect the applicable Project or any activity under Program administration or monitoring and evaluation, (c) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1 of this Compact, and (d) does not cause the Government's obligations or responsibilities or overall contribution of resources to be less than specified in Section 2.5(a) of this Compact.

MULTI-YEAR FINANCIAL PLAN SUMMARY¹

(US\$ '000)

Project	Year 1 + CIF	Year 2	Year 3	Year 4	Year 5	Total
1. Transport						
A. Mainland Trunk Roads Activity						
B. Zanzibar Rural Roads Activity						
C. Road Maintenance Activity						
D. Mafia Island Airport Activity						
Sub-Total	21,552	84,406	147,131	82,606	37,081	372,776
2. Energy						
A. Zanzibar Interconnector Activity						
B. Malagarasi Hydropower & Kigoma Distribution Activity						
C. Distribution Systems Rehabilitation and Extension Activity						
Sub-Total	16,646	45,501	53,435	59,083	31,806	206,471
3. Water						
A. Lower Ruvu Plant Expansion Activity						
B. Non-Revenue Water Activity						
C. Morogoro Water Supply Activity						
Sub-Total	5,845	16,959	17,786	16,838	8,908	66,336
4. Monitoring and Evaluation						
Monitoring and Evaluation						
Sub-Total	2,500	1,000	1,000	1,000	4,500	10,000
5. Program Administration and Audits						
A. Program Admin. (MCA-Tanzania)						
B. Fiscal Agent Support						
C. Procurement Agent Services						
D. Audit						
E. Capacity Building and Technical Assistance						
Sub-Total	11,202	7,615	7,900	7,868	7,968	42,553
Total Estimated MCC Contribution	57,745	155,481	227,252	167,395	90,263	698,136

¹ Costs indicated in the table above for all Project Activities under the relevant Projects include, as appropriate: engineering and environmental studies; implementation of EMPs and RAPs; technical assistance; coordination; contingencies; project management; and, construction supervision.

ANNEX III

SUMMARY OF MONITORING AND EVALUATION PLAN

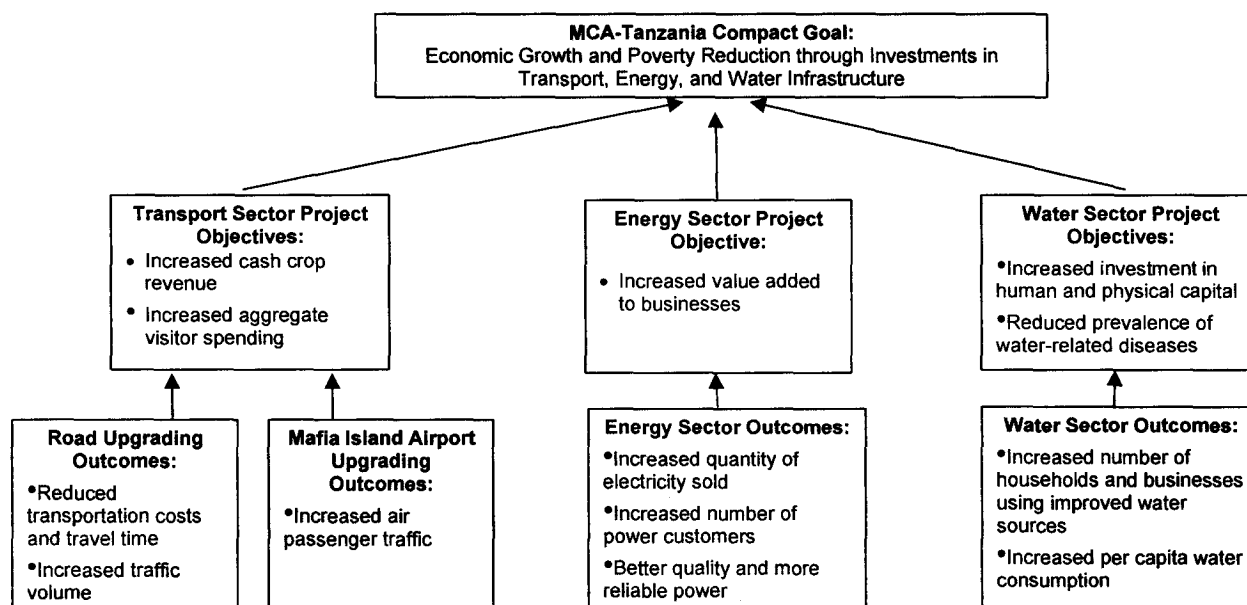
This Annex III to this Compact (the “*M&E Annex*”) generally describes the components of the monitoring and evaluation plan (the “*M&E Plan*”) for the Program. Each capitalized term in this Annex III shall have the same meaning given such term elsewhere in this Compact.

1. Overview.

The MCC and the Government (or a mutually acceptable Government affiliate or permitted designee) shall formulate, agree to and the Government shall implement, or cause to be implemented, an M&E Plan that specifies (a) how progress toward the Compact Goal and the Project Objectives will be monitored, (“*Monitoring Component*”), (b) process and timeline for the monitoring of planned, ongoing, or completed Project Activities to determine their efficiency and effectiveness, and (c) a methodology for assessment and rigorous evaluation of the outcomes and impact of the program (“*Evaluation Component*”). Information regarding the Program’s performance, including the M&E Plan, and any amendments or modifications thereto, as well as progress and other reports, will be made publicly available on the MCA-Tanzania Website and elsewhere.

2. Program Logic.

The Tanzania program monitoring and evaluation plan shall be built on the program logic model below, which is a graphical representation of the program showing the sequence of results and the causal links between outcomes, objectives, and ultimately the Compact Goal.



The Program’s focus on infrastructure is an essential part of addressing Tanzania’s development challenges in accordance with the MKUKUTA/MKUZA. The Transport Sector Project is based on the logic that improvements in the road network and airports can reduce transport costs to regional, national and international markets, thereby catalyzing growth in sectors that rely on

good transportation links, such as agriculture and tourism. The Energy Sector Project will provide reliable electricity to households and businesses, allowing for an increase in the scale and scope of productive activities and increased value added for businesses in project areas. The logic behind the Water Sector Project is that by increasing the supply of potable water for households, mortality and morbidity from water-related diseases will decrease, leading to increased investment human and physical capital. In addition, increasing the reliability of potable water should lead to increased investments in productive assets by business.

3. Monitoring Component.

(a) Indicators. The M&E Plan shall measure the results of the Program using quantitative, objective and reliable data (“**Indicators**”). Each Indicator will have one or more expected results that specify the expected value and the expected time by which that result will be achieved (“**Target**”). The M&E Plan will measure and report four types of Indicators. First, the Compact Goal Indicators (each, a “**Goal Indicator**”) will measure the impact of the Program on the incomes of Tanzanians who participate or are covered by the Program (collectively, “**Beneficiaries**”). Second, Objective Indicators (each, an “**Objective Indicator**”) will measure the final results of the Projects in order to monitor their success in meeting the Project Objectives. Third, Outcome Indicators (each, an “**Outcome Indicator**”) will measure the intermediate results of goods and services delivered under each Project in order to provide an early measure of the likely impact of the Projects on the Project Objectives. Fourth, Project Activity Indicators (each, an “**Activity Indicator**”) (each of Goal Indicator, Objective Indicator, Outcome Indicator and Activity Indicator, an “**Indicator**”) will measure the delivery of key goods and services in order to monitor the pace of Project Activity execution. For each Outcome Indicator, Objective Indicator, and Goal Indicator, the M&E Plan will define a strategy for obtaining and verifying the value of such Indicator prior to undertaking any activity that affects the value of such Indicator (such value, a “**Baseline**”). All Indicators will be disaggregated by gender, income level and age, to the extent practicable. Subject to prior written approval from the MCC, MCA-Tanzania may add Indicators or refine the Targets of existing Indicators.

(i) Goal Indicators. The M&E Plan shall contain the Goal Indicators listed in the table below, with their definitions, unit of measurement, baseline, and Year 5 with and without Projects.

Goal Level Indicators						
Goal	Indicator	Unit	2005	2006	2007	2008
Economic Growth	Regional GDP	<i>Regional GDP increase due to Transport Sector Project</i>				
		Mbeya an Rukwa regions (Tunduma Sumbawanga road)	US\$ millions	1275.9	1635.3	1645.3
		Tanga region (Tanga Horohoro road)		699.0	895.9	898.3
		Ruvuma region (Namtumbo-Songea and Peramiho Mbinga roads)		494.2	633.4	639.4
		Zanzibar		366.8	470.1	471.2
		Pwani region (Mafia airport)		235.3	301.5	302.3
	Regional GDP	<i>Regional GDP increase due to Energy Sector Project</i>				
		Kigoma	US\$ millions	366.4	441.4	441.5
		Tanga		657.0	842.0	842.9
		Dodoma		342.1	438.4	438.8
		Morogoro		615.1	788.3	789.1
		Iringa		618.1	792.2	793.0
		Mwanza		959.8	1230.2	1231.4
		Mbeya		809.2	1037.0	1038.1
		Zanzibar		366.8	470.1	470.3
	Regional GDP	<i>Regional GDP increase due to Water Sector Project</i>				
		Dar es Salaam	US\$ millions	1821.1	2483.3	2505.1
		Morogoro		75.3	102.7	103.1

(ii) Objective and Outcome Indicators. The M&E Plan shall contain the following objective and outcome indicators to measure results at the Project level.

Transport Sector Project
Objective and Outcome Level Indicators

Objective Level Indicators					
Increased cash crop revenue	Cash-crop revenue	<i>Tons of crops sold (in price per ton in zone of influence of road)</i>			
		Tunduma Sumbawanga	US\$ millions	58.2	67.8
		Tanga Horohoro		1.35	1.48
		Namtumbo-Songea and Peramiho Mbinga		41.0	50.7
		Zanzibar/Pemba		8.0	8.5
Increased aggregate spending by visitors to Mafia Island	Aggregate visitor spending ²	Sum of spending by all visitors to Mafia Island	US\$ millions	3.2	4.2
Outcome Level Indicators					
Reduced vehicle operating costs and travel times	International roughness index (IRI)	<i>Measurement of pavement roughness on targeted roads</i>			
		Tunduma Sumbawanga	m/km	14.3	2.5
		Tanga Horohoro		14.5	2.5
		Namtumbo-Songea and Peramiho Mbinga		16.0	2.5
		Zanzibar/Pemba		15.0	4.0
Increased traffic volume	Average annual daily traffic (AADT)	<i>Number of vehicles by type on MCC-upgraded roads</i>			
		Tunduma Sumbawanga	vehicles	470	810
		Tanga Horohoro		530	915
		Namtumbo-Songea		230	390
		Peramiho Mbinga		110	180
Increased air passenger traffic to Mafia Island	Passenger arrivals ³	Number of passenger arrivals at Mafia Island airport	passengers	12,000	16,000

² Reporting will be disaggregated by length of stay and visitor category: business, leisure and holiday (package and non-package), visiting friends and relatives, government and other.

³ Reporting will be disaggregated by visitor category: business, leisure and holiday (package and non-package), visiting friends and relatives, government and other. Baseline and target are annual totals but data will be reported quarterly.

Energy Sector Project
Objective and Outcome Level Indicators

Objective Level Indicator					
Increased value added to businesses in Kigoma, T&D target areas and Unguja Island	Value added	Profits plus wages of enterprises, disaggregated by Kigoma, T&D target regions and Unguja Island ⁴	US\$	TBD	TBD
Outcome Level Indicators					
Increased quantity of electricity sold	Electricity (kWh) sold	Incremental amount of electricity sold, to be disaggregated by target region and customer types ⁵	MWh/year	TBD ⁶	TBD
Increased number of power customers	New power customers	<i>Number of new connections resulting from MCC investment, disaggregated by target regions and customer types</i>			
		Malagarasi Hydropower and Kigoma Distribution Activity	number	0	2,500
		Distribution Rehabilitation and Extension Activity		0	35,000
		Zanzibar Interconnector Activity		0	TBD
Better quality power	Power quality	<i>Frequency and magnitude of voltage fluctuations (% deviation from standard voltage level each hour) at primary substations feeding target regions/cities</i> Malagarasi Hydropower and Kigoma Distribution Activity Distribution Rehabilitation and Extension Activity Zanzibar Interconnector Activity	number and magnitude of voltage deviations/day	TBD ⁶	2% improvement over baseline
More reliable power	Power reliability	<i>Amount of energy (MWh) not served to target regions and customer types, as a result of T&D failure (for all target regions) and generation failure (for Kigoma region)</i> Malagarasi Hydropower and Kigoma Distribution Activity Distribution Rehabilitation and Extension Activity Zanzibar Interconnector Activity	MWh	TBD ⁶	15% fewer than baseline per year
	Power outage duration	<i>Duration of power outages disaggregated by target regions and customer types</i> Malagarasi Hydropower and Kigoma Distribution Activity Distribution Rehabilitation and Extension Activity Zanzibar Interconnector Activity	hours/month	TBD ⁶	15% fewer than baseline per year

⁴ Target regions include: (i) Kigoma region (which includes towns of Kigoma, Kasulu and Uvinza); (ii) Mwanza, Tanga, Morogoro, Dodoma, Iringa and Mbeya for the Distribution Rehabilitation and Extension Activity; and (iii) Unguja Island.

⁵ Target customer types include T1, T2, T3, T4 and T5 (different tariff categories).

⁶ Baseline figures will be estimated during Year 1 of Compact by TANESCO and ZECO. After Year 1 baseline is determined, TANESCO and ZECO will report annually on these indicators.

Water Sector Project
Objective and Outcome Level Indicators

Objective Level Indicators					
Investment in physical capital	Value of household assets	Total value of household assets	US\$	TBD ⁷	TBD
Investment in human capital	Average years of education completed	Average years of education completed	years	TBD	TBD
Reduced prevalence of water-related diseases ⁸	Prevalence of diarrhea ⁸	<i>Total number of diarrhea cases</i> Dar es Salaam Morogoro	diarrhea cases	TBD	TBD
	Prevalence of cholera	<i>Total number of cholera cases</i> Dar es Salaam Morogoro	cholera cases	TBD	TBD
Outcome Level Indicators					
Increased number of households using improved water source	Number of households using improved source for drinking water	<i>Improved source for drinking water is defined as (a) type of source = household connection (in-home or in-yard), public standpipe, (b) <30 minutes (go, wait, collect and return), (c) <400 meters, and (d) supplied by provider acting within the regulatory framework (incorporates issues of water quality and tariffs/affordability)</i> Dar es Salaam Morogoro	households	TBD	TBD
Increased number of businesses using improved water source	Number of businesses using improved water source	<i>Improved source comprises (a) business connection, (b) 24-hours/day of supply and (c) supplied by provider acting within the regulatory framework (incorporates issues of water quality and tariffs/affordability)</i> Dar es Salaam Morogoro	businesses	TBD	TBD
Increased per capita water consumption	Volume of individual water consumption	<i>Daily per capita water consumption by type of primary water source: in-home, in-yard, neighbor's yard, public tap, other</i>	liters/capita/day		
		Dar es Salaam		in-home: 70 in-yard: 40 neighbor's yard: 40 public tap: 25 other: 10	in-home: 150 in-yard: 87 neighbor's yard: 87 public tap: 87 other: 54
		Morogoro		in-home: 100 in-yard: 70 neighbor's yard: 40 public tap: 40 other: 25	in-home: 150 in-yard: 145 neighbor's yard: 83 public tap: 83 other: 25

(iii) Activity Indicators. Prior to any Disbursement for any Project Activity, the Implementing Entity of such Project Activity shall propose a set of Activity Indicators that is

⁷ Baselines and targets will be established no later than the last quarter before construction begins.

⁸ Reporting will be disaggregated by age group and data will be collected monthly. Monthly baselines will be established using 2007 administrative health data.

approved in writing by MCA-Tanzania and the MCC. The M&E Plan shall be amended to reflect the addition of such Indicators. The table below shows a notional list of Activity Indicators that the M&E Plan may contain.

Transport Sector Project Activity Level Indicators					
Mainland and Pemba roads rehabilitated	Kilometers of road upgraded	<i>Kilometers of road upgraded from gravel or earth to bitumen pavement</i>			
		Tunduma Sumbawanga	km	0	224.9
		Tanga Horohoro		0	65.7
		Namtumbo-Songea and Peramiho Mbinga		0	139.0
		Pemba Island		0	34.7
Roads maintained	Road maintenance expenditures	Amount spent on maintenance the previous fiscal year / Amount budgeted for maintenance for the previous fiscal year	percent	TBD	TBD
Mafia Island runway upgraded	Percentage of upgrade completed	Percent of the Mafia Island airport runway upgrading completed	percent	0	100

Energy Sector Project Activity Level Indicators					
Result	Indicator	Definition	Unit	Baseline	Year 5
Additional MWh/day of energy generated	Energy generation	Daily energy generated at the power plant and transmitted to the grid (Kigoma)	MWh/day	0	49
Increased kVA of transmission capacity	Transmission capacity	<i>Additional transmission capacity (kVA)</i>			
		Malagarasi Hydropower and Kigoma Distribution Activity	MVa	0	20
		Distribution Rehabilitation and Extension Activity		0	146
		Zanzibar Interconnector Activity		0	120
Improved collection efficiency	Collection efficiency	<i>Monthly cash collection / Monthly invoices</i>			
		Malagarasi Hydropower and Kigoma Distribution Activity	percent	TBD ⁹	95
		Distribution Rehabilitation and Extension Activity			95
		Zanzibar Interconnector Activity			95
Decreased technical and non-technical losses	Technical and non-technical losses	<i>(kWh received by substation – kWh billed) / (kWh received by substation)</i>			
		Malagarasi Hydropower and Kigoma Distribution Activity	percent	TBD ¹⁰	15
		Distribution Rehabilitation and Extension Activity			15
		Zanzibar Interconnector Activity			15

⁹ Baseline figures and annual targets will be developed during Year 1 of Compact by TANESCO and ZECO. After Year 1 baseline and annual targets are determined, TANESCO and ZECO will report annually on these indicators.

Water Sector Project Activity Level Indicators					
Increased water supplied	Volume of water produced	Daily volume of water produced by treatment facility	m ³ /day		
		Dar es Salaam Morogoro		235,294 18,000	325,294 300,000
Decreased non-revenue water	Volume of non-revenue water	Volume of non-revenue water (disaggregated by commercial and physical losses) / Volume of water produced	percent		
		Dar es Salaam Morogoro		68 40	56 32
Improved operations and maintenance cost recovery ratio	Operations and Maintenance Cost Recovery Ratio	(Total revenue – Routine and periodic operations and maintenance expenses) / Routine and periodic operations and maintenance expenses	percent	TBD	0

(b) Data Collection and Reporting. The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of reporting requirements and responsible parties. The M&E Plan will use both qualitative and quantitative methods for data collection. The M&E Plan shall outline various data collection methodologies, assessments, and surveys necessary to report the results of all Indicators included in the M&E Plan. It will also draw quantitative information from the National Bureau of Statistics and other large household surveys.

(c) Data Quality Reviews. From time to time, as determined in the M&E Plan or as otherwise requested by the MCC, the quality of the data gathered through the M&E Plan shall be reviewed by an independent third party to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection.

(d) Management Information System. The M&E Plan shall describe the information system that will be used to collect data, store, process and deliver information to relevant stakeholders in such a way that the Program information is at all times accessible and useful to those who wish to use it. The system development will take into consideration the requirement and data needs of the components of the Program, and will be aligned with the MCC's existing systems, other service providers, and government ministries.

4. Evaluation Component.

The Evaluation Component of the M&E Plan shall detail the methodology, process, and timeline for analyzing the Program efficiency, effectiveness, impact, and sustainability. At a minimum, this component shall include at least two types of evaluations, an Impact Evaluation and a Final Evaluation. With the agreement of the MCC, the Evaluation Component also may include ad hoc evaluations and special studies. The cost of an independent evaluation or special study may be paid from MCC Funding.

(a) Impact Evaluation. The MCC will engage an independent evaluator to conduct an impact evaluation of specific Project Activities that lend themselves to rigorous evaluation ("**Impact Evaluation**"). The Impact Evaluation will be designed using rigorous methods to

address selection bias and attribution issues. It will also take into consideration the anticipated time lag for each Project to realize expected benefits. It is anticipated that the Impact Evaluation may extend beyond the Compact Term and flexibility of design should be a priority. The following table outlines the methodologies currently under consideration, which may be modified to accommodate changes in Program design. In all cases, the most rigorous method possible will be implemented.

Pemba Rural Road Upgrading	Difference-in-difference using Propensity Score Matching	Households located in communities affected by NORAD road upgrades compared to households located in MCC-affected communities	Transport prices Input and output prices for agricultural goods Capital investment and employment figures
		Households living in communities without anticipated road upgrades during the Compact period compared to households located in MCC-affected communities	Migration patterns Household health and income School enrollment (especially for girls)
Mainland Trunk Road Upgrading	Difference-in-difference using Propensity Score Matching, or simple difference-in-difference	Individuals living along recently upgraded trunk roads compared to those living along MCC-upgraded roads	Transport prices Input and output prices for agricultural goods Capital investment and employment figures
		Individuals living at least 2 kilometers from any trunk road compared to those living along MCC-upgraded roads	Migration patterns Household health and income HIV/AIDS rates
Expansion of Energy Distribution Networks (Malagarasi Hydro and T&D Activities)	Regression discontinuity	Communities who receive electricity early compared to those who receive electricity late in the Compact	Improvements in health
		Households who live at the end of the distribution line compared to those who live just beyond the end of the distribution line	Child schooling attainment (or at least intensity of study) Small-scale businesses using electricity

(b) Final Evaluation. MCA-Tanzania, with the prior written approval of the MCC, will engage an independent evaluator to conduct an evaluation at the expiration or termination of this Compact Term (“**Final Evaluation**”) or at the MCC’s election, the MCC will engage such an independent evaluator. The Final Evaluation must at a minimum evaluate the efficiency and effectiveness of the Program and provide lessons learned that may be applied to similar projects.

(c) Ad Hoc Evaluations and Special Studies. The M&E Plan shall identify and make provision for special studies, ad-hoc evaluations, and research that may be needed as part of the monitoring and evaluating of this Compact. Either the MCC or MCA-Tanzania may request special studies or ad-hoc evaluations of Projects, Project Activities, or the Program as a whole prior to the expiration of this Compact Term. If MCA-Tanzania engages an evaluator, the evaluator will be an externally contracted independent source selected by MCA-Tanzania, subject to the prior written approval of the MCC, following a tender in accordance with the MCC Program Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or supplemental agreement.

5. Other Components of the M&E Plan.

In addition to the Monitoring and Evaluation Components, the M&E Plan shall include the following components for the Program, Projects and Project Activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

- (a) Coordination of data collection. Efforts to synchronize data collection with relevant national initiatives including the WSDP performance monitoring framework, MKUKUTA monitoring plan and the MKUZA monitoring plan.
- (b) M&E Budget. A detailed cost estimate for all components of the M&E Plan.
- (c) Assumptions and Risks. Any assumptions and risks external to the Program that underlie the accomplishment of the Project Objectives and Project Activity Outcomes; *provided, however*, that such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.